YOUNKER BROTHERS, INC. 1976 ANNUAL REPORT FOR THE FISCAL YEAR ENDED JANUARY 29th, 1977

TABLE OF CONTENTS

TO OUR SHAREHOLDERS

Another record year for sales for Younkers for 1976. Our sales totaled $124,225,751 or a 4.5% increase over 1975. Our net earnings declined, however, 11.5% to $4,428,827 or $3.11 per share as compared to $3.51 per share in the preceding year.

We are disappointed in the decline in net earnings. We feel this was the result of a number of factors. Exceptionally heavy markdowns which had to be taken in the first part of 1976, resulted in lower than usual gross margins.

In addition, even though the first quarter sales were on a strong basis, the sales trend for the remainder of the year became weaker because of a drop in agricultural income partially due to the drought in some parts of Younkers' trading area. January sales were even more drastically affected because of the prolonged severe cold weather during that month.

Also an increase in the LIFO (last in, first out) inventory reserve adversely affected the results of the fourth quarter. The actual LIFO charge was in line with the accrued rate used throughout the year, however, the charge compared unfavorably with the credit in the fourth quarter in the prior year.

Profits were also affected by a higher effective income tax rate in 1976 than in 1975. This was due to larger investment tax credits in 1975 derived from the three new stores opened that year.

Basically, we are optimistic in our outlook for 1977. We feel that this year will be a good year economically for the areas in which Younker stores are located. We feel we can look forward to higher sales and profits for 1977.

On March 30, 1977 we opened a new store in the Westland Mall in Burlington, Iowa. Sales at this new store have been very good since our opening. This is the only new store which we will open in 1977. In some ways this does allow our organization to concentrate on increasing the sales per square foot in our existing stores.

Younker's financial position was further strengthened in 1976 with an increase in our net asset value per common share to $35.29 from $33.53 in the preceeding year. The short term debt has been eliminated from the balance sheet at year end and a relatively modest amount of long term debt remains ($6,752,000).

A campaign of rigid control of expenses and careful control of inventories during this latter part of 1976 was initiated. This puts Younkers in a very comfortable position for operations during 1977.

Younkers has made a committment to greater use of television and radio in its promotion mix. We are striving to gain an even larger share of the young adult market.

The 1976 annual report is a "fashion" report, reflecting the pulse of our business. Highlight of the fashion year was the personal appearance of Halston and his entourage in our Des Moines and Omaha stores. The year's calendar was dotted with special designer showings, fashion presentations in all stores. Fashion plays a part in our hard lines as well. The Merle Hay Store for Homes has registered remarkable gains. We intend to continue to stress fashion, quality and service. We are very much aware of who we are and our customer's desires.

The Iowa Market is our primary selling area and it continues to be among the brighter economic spots in the nation. Unemployment in Iowa totals 4.7%, far less when compared to the U. S. rate of unemployment. Younkers also has stores in Illinois, South Dakota, Minnesota and Nebraska. These areas have experienced an unusually stable business climate. Iowa was a shining example of meeting its energy needs this past severe winter. It had made plans several years ago to be ready to meet such an emergency.

FRED GLYNN

After serving Younkers in many capacities, Fred Glynn, Senior Vice President, retired on October 23, 1976 upon reaching his 65th birthday. Mr. Glynn who will continue as a director, is a classic example of someone who grew up with Younkers. Our policy of promotion from within does work. In turn, Mr. Glynn did much to train people and bring them along so that Younkers will have for many years an oncoming crop of fine young management talent. We do want to express to Mr. Glynn our most sincere appreciation for all that he contributed in helping to make the Younker organization what it is today.

As always, we owe our grateful thanks to our Younker associates who have helped make this record possible. We also want to extend our appreciation to our many suppliers for their continuing cooperation in helping us bring to our many loyal and wonderful customers the latest in fashion and quality merchandise.

Charles Duchen
President

SUMMARY OF OPERATIONS

(Dollars in Thousands Except Per Share Data)

	Fiscal year ended 1977	1976	1975	1974	1973
Net sales, including leased departments	$ 124,226	$ 118,854	$ 106,893	$ 100,074	$ 90,766
Cost of goods sold (A)	79,280	75,104	67,740	64,014	57,912
Buying, selling and administrative expense (less credit service charges) exclusive of items listed below	8,847	8,892	7,815	7,081	5,907
Salaries and wages	20,557	19,056	17,314	14,973	14,066
Property rentals, net	3,374	2,872	2,207	1,988	1,659
Depreciation	2,415	2,189	1,908	1,554	1,415
Taxes other than income	2,451	2,365	2,133	2,003	1,843
Profit sharing and group life insurance	829	923	907	867	812
Interest and financing	579	586	564	565	568
	118,332	111,987	100,588	93,045	84,182
Operating income	5,894	6,867	6,305	7,029	6,584
Other income	2,178	1,850	1,188	1,281	2,950
Earnings before income taxes and extraordinary item	8,072	8,717	7,493	8,310	9,534
Income taxes	3,643	3,710	3,421	4,116	4,316
Earnings before extraordinary item	4,429	5,007	4,072	4,194	5,218
Extraordinary item, net of related income taxes (B)	—	—	253	—	—
Net earnings	$ 4,429	$ 5,007	$ 4,325	$ 4,194	$ 5,218
Cash dividends on preferred stock	$ 151	$ 151	$ 151	$ 151	$ 151
Net earnings applicable to common stock	$ 4,278	$ 4,856	$ 4,174	$ 4,043	$ 5,067
Other data:					
Net earnings per common share:					
Earnings before extraordinary item	$ 3.11	$ 3.51	$ 2.81	$ 2.67	$ 3.18
Extraordinary item	—	—	.18	—	—
Net earnings	$ 3.11	$ 3.51	$ 2.99	$ 2.67	$ 3.18
Dividends per common share	$ 1.40	$ 1.20	$ 1.20	$ 1.70	$ 1.29
Equity of common stockholders	$ 48,415	$ 46,249	$ 43,127	$ 41,885	$ 42,369
Net asset value per share of common stock	$ 35.29	$ 33.53	$ 31.19	$ 28.95	$ 26.58
Average number of common shares outstanding	1,376,335	1,382,547	1,396,272	1,513,633	1,592,714
Working capital	$ 32,845	$ 30,429	$ 31,650	$ 32,892	$ 38,313
Current assets per dollar of current liabilities	$ 3.28 to 1	$2.73 to 1	$ 4.03 to 1	$3.72 to 1	$ 4.23 to 1

(A) 1975 and subsequent years' inventories are valued at cost on the last-in, first-out (LIFO) method. 1974 and prior years' inventories are valued at the lower of cost or market as determined by the retail inventory method.

(B) Extraordinary item — The Company recovered, by means of litigation, its original investment in certain commercial paper which was written off as an extraordinary charge in 1971.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

The following information is given to further explain certain financial information shown in the Summary of Operations. For the purpose of this analysis the fiscal year ended January 29, 1977 will be referred to as 1976. The same is true for the other years.

Increases in sales each of the last two years, 1976 and 1975, is attributed to the addition of the following stores: Moline, Illinois in February 1974; Store for Homes, Merle Hay Mall, Des Moines in November 1974; Sioux Falls, South Dakota, and Southridge Mall in Des Moines in October, 1975. In addition, a larger replacement store was opened in Austin, Minnesota, in July, 1975. As a result of these sales increases, Cost of Goods Sold has increased in each of the last two years.

Buying, Selling and Administrative Expense less Credit Service Charges increased in 1975 over 1974 due primarily to increases in supplies, insurance, equipment repairs, travel, and other administrative expenses totaling $1,621,000 while credit service charges increased $544,000 for a total of $1,077,000. During 1976 as compared to 1975, the increase totaled $334,273 for expenses, mainly insurance, and $379,360 for credit service charges for a net decrease in Buying, Selling, and Administrative Expenses less Credit Service Charges of $45,087.

The increase in Salaries and Wages in 1975 and 1976 is attributed to increases in minimum wages effective May 1, 1974; January 1, 1975; and January 1, 1976. The previously mentioned new stores have also increased the size of the work force during those periods.

The new stores, as well as higher sales in older stores which pay percentage rent, resulted in an increase in Property Rentals of $501,794 in 1976 over 1975. The trend is evident for previous years due to the same reasons.

Expansion has caused Depreciation Expense to increase approximately $225,000 in 1976 and $281,000 in 1975. This increase is from the Company's expansion to new selling locations and the extensive remodeling of older structures.

The higher Taxes Other Than Income in 1975 over 1974 is due to higher real estate and personal property taxes because of larger inventories and increased valuation of store fixtures.

The decrease of $94,285 in Profit Sharing and Group Life Insurance is a result of the lower profits in 1976 over 1975.

Included in Other Income in 1972 was a $1,925,000 gain on sales of 112,500 shares of General Growth Properties. The increase in 1976 over 1975 is due principally to a settlement of our lawsuit against the landlord of the Westroads Store in Omaha, in which the Nebraska Supreme Court found in favor of the Company. The lawsuit resulted in an approximate gain before taxes of $350,000. The increase in 1975 over 1974 is due principally to an increase in equity earnings on investments (principally Paul Harris Stores, Inc.) and an increase in realized gain on sales of securities.

STATEMENTS OF EARNINGS

Years ended January 29, 1977 and January 31, 1976

	1977	1976
Net sales, including leased departments	$124,225,751	$118,853,758
Costs and expenses:		
Cost of goods sold	79,280,020	75,103,383
Buying, selling and administrative expenses (less credit service charges) exclusive of items listed below	8,846,946	8,892,033
Salaries and wages	20,556,627	19,056,007
Property and equipment rentals, net (note 8)	3,373,578	2,871,784
Depreciation	2,414,802	2,189,600
Taxes other than income	2,451,334	2,364,906
Profit sharing and group life insurance	828,894	923,179
Interest and financing, primarily on long-term debt	579,136	586,125
	118,331,337	111,987,017
Operating income	5,894,414	6,866,741
Other income (excludes unrealized appreciation of equity securities during the year of $2,460,457 in 1977 and $5,156,714 in 1976) (note 3):		
Dividends	949,560	858,195
Earnings from investments accounted for by the equity method	536,686	502,268
Realized gains on sale of securities	241,521	312,976
Interest	71,652	147,069
Other, net (note 7)	377,994	29,689
	2,177,413	1,850,197
Earnings before income taxes	8,071,827	8,716,938
Income taxes (note 6)	3,643,000	3,710,000
Net earnings	$ 4,428,827	$ 5,006,938
Net earnings per common share	$3.11	$3.51

See accompanying notes to financial statements.

BALANCE SHEETS

January 29, 1977 and January 31, 1976

ASSETS	1977	1976
Current assets:		
Cash	$ 2,406,029	$ 2,759,442
Marketable securities, at cost (market value — 1977, $1,777,949; 1976, $1,756,587) (note 3)	1,359,346	1,387,270
Receivables, less allowance for doubtful receivables and unearned finance charges of $593,000 ($626,000 in 1976)	22,473,957	20,232,301
Merchandise inventories on hand and in transit, less provision for discounts in inventories, $673,054 ($797,018 in 1976) (note 2)	20,097,350	22,822,151
Prepaid expenses	924,859	822,723
Total current assets	47,261,541	48,023,887
Investments (note 3):		
Equity securities (market value — 1977, $19,386,028; 1976, $16,659,700)	5,309,064	4,993,942
Other	1,462,699	1,509,034
Total investments	6,771,763	6,502,976
Property, plant and equipment, at cost:		
Land	1,181,602	1,129,942
Buildings and improvements on owned properties	2,454,931	2,491,975
Buildings and improvements on leased properties	7,536,566	7,202,893
Furniture, fixtures and equipment	30,464,045	29,619,000
	41,637,144	40,443,810
Less accumulated depreciation	20,785,966	18,930,329
Net property, plant and equipment	20,851,178	21,513,481
Other assets (note 4)	340,029	384,916
	$ 75,224,511	$ 76,425,260

See accompanying notes to financial statements.

Des Moines, "All-American City, 1977".

BALANCE SHEETS

January 29, 1977 and January 31, 1976

LIABILITIES AND STOCKHOLDERS' EQUITY	1977	1976
Current liabilities:		
Notes payable to banks	$ —	$ 2,000,000
Current installments of long-term debt (note 5)	634,000	634,000
Accounts payable	7,059,843	8,299,234
Income taxes	1,663,670	1,385,279
Deferred income taxes	2,367,000	1,946,000
Accrued taxes other than income	1,203,851	1,381,018
Other accrued expenses	1,487,737	1,949,656
Total current liabilities	14,416,101	17,595,187
Long-term debt, excluding current installments (note 5)	6,118,000	6,752,000
Provision for deferred compensation	383,000	313,000
Deferred income taxes	3,198,000	2,821,000
Total liabilities	24,115,101	27,481,187
Stockholders' equity:		
Capital stock:		
Serial preferred stock of $100 par value per share. Authorized 22,058 shares; issued:		
5% cumulative series, 14,000 shares	1,400,000	1,400,000
Second 5% cumulative series, 2,142 shares	214,200	214,200
7% non-callable preferred stock of $10 par value per share, cumulative. Authorized and issued 100,000 shares	1,000,000	1,000,000
Common stock without par value. Authorized 2,500,000 shares; issued 1,600,115 shares	5,427,712	5,427,712
Additional paid-in capital	1,082,427	1,082,427
Reinvested earnings (note 5)	47,326,020	44,975,547
Cost of 228,296 common shares in treasury (220,796 in 1976)	(5,340,949)	(5,155,813)
Total stockholders' equity	51,109,410	48,944,073
Commitments (note 8).		
	$ 75,224,511	$ 76,425,260

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended January 29, 1977 and January 31, 1976

	1977	1976
Sources of working capital:		
Net earnings	$ 4,428,827	$ 5,006,938
Items which do not use (provide) working capital:		
Depreciation	2,414,802	2,189,600
Deferred income taxes	377,000	437,000
Deferred compensation	70,000	81,750
Reduction in provision for self-insurance	—	(175,000)
Earnings from investments reported on equity method	(536,686)	(502,268)
Loss from write-off of investment	—	37,298
Working capital provided by operations	6,753,943	7,075,318
Transfer current portion of long-term notes receivable to current assets	144,836	355,494
Return of capital dividend from General Growth Properties	88,607	110,329
Dividends and distributions from investments reported on equity method	101,153	95,594
	7,088,539	7,636,735
Uses of working capital:		
Purchase property, plant and equipment, net	1,752,499	5,864,702
Pay dividends	2,078,354	1,810,095
Purchase common stock of Paul Harris Stores, Inc.	—	13,266
Purchase treasury stock	185,136	74,878
Transfer current portion of long-term debt to current liabilities	634,000	634,000
Acceptance of long-term notes	—	225,123
Other	21,810	236,007
	4,671,799	8,858,071
Increase (decrease) in working capital	$ 2,416,740	$ (1,221,336)

Burlington-West, opened March 30, 1977.

STATEMENTS OF CHANGES IN FINANCIAL POSITION, (Continued)

	1977	1976
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	$ (353,413)	$ 381,383
Marketable securities	(27,924)	(184,141)
Receivables, net	2,241,656	3,475,539
Merchandise inventories	(2,724,801)	2,689,286
Prepaid expenses	102,136	(417,456)
	(762,346)	5,944,611
Increase (decrease) in current liabilities:		
Notes payable to banks	(2,000,000)	2,000,000
Accounts payable	(1,239,391)	4,863,035
Income taxes	278,391	(553,008)
Deferred income taxes	421,000	358,000
Other accrued expenses	(639,086)	497,920
	(3,179,086)	7,165,947
Increase (decrease) in working capital	$ 2,416,740	$ (1,221,336)

See accompanying notes to financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended January 29, 1977 and January 31, 1976

	1977	1976
Preferred stock — no change during year	$ 2,614,200	$ 2,614,200
Common stock — no change during year	5,427,712	5,427,712
Additional paid-in capital — no change during year	1,082,427	1,082,427
Reinvested earnings:		
Balance at beginning of year	44,975,547	41,778,704
Net earnings	4,428,827	5,006,938
	49,404,374	46,785,642
Deduct dividends:		
Serial preferred stock:		
5% cumulative series, $5 per share	70,000	70,000
Second 5% cumulative series, $5 per share	10,710	10,710
7% non-callable preferred stock, $0.70 per share	70,000	70,000
Common stock — $1.40 per share ($1.20 in 1976)	1,927,644	1,659,385
	2,078,354	1,810,095
Balance at end of year	47,326,020	44,975,547
Cost of common shares in treasury:		
Balance at beginning of year, 220,796 shares (1976, 217,296 shares)	(5,155,813)	(5,080,935)
Shares purchased during the year, 7,500 shares (1976, 3,500 shares)	(185,136)	(74,878)
Balance at end of year, 228,296 shares (1976, 220,796 shares)	(5,340,949)	(5,155,813)
Total stockholders' equity	$ 51,109,410	$ 48,944,073

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

January 29, 1977 and January 31, 1976

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS

(a) BUSINESS

Younker Brothers, Inc., operates twenty-five retail department stores located in five midwestern states.

(b) FISCAL YEAR

During 1976 the Company changed its fiscal year-end to the Saturday nearest January 31 (January 29, in 1977). Both years presented are comprised of 52 weeks.

(c) MARKETABLE SECURITIES

Marketable securities are carried at the lower of aggregate cost or market.

In computing realized gains and losses on securities sold, the Company uses the average cost method for determining cost.

(d) ACCOUNTS RECEIVABLE

Consistent with industry practice, installment accounts receivable have been included in current assets, although insignificant amounts will become due after one year.

The allowance for doubtful receivables represents 2.2 percent (2.5 percent in 1976) of customer accounts receivable at year-end, and is determined by historical loss experience and current analysis of receivable delinquencies.

Unearned finance charges on installment accounts receivable are deferred and reduce accounts receivable. Finance charges are recognized in earnings as installment payments are received, and reduce buying, selling and administrative expenses in the statements of earnings.

(e) MERCHANDISE INVENTORIES

Inventories are stated at cost determined by the last-in, first-out (LIFO) method (which is not in excess of market value).

(f) INVESTMENTS

The Company's investment in General Growth Properties (GGP) (formerly carried on the equity basis) is stated at equity in net assets at January 31, 1973, reduced by subsequent dividends received from GGP in excess of the Company's proportionate share of GGP's net earnings since January 31, 1973.

The investment in Paul Harris Stores, Inc., is carried on the equity basis.

The investment in Becker Communications Associates, is stated at the amount of the original investment plus undistributed partnership income.

All other investments are stated at cost.

(g) PROPERTY, PLANT AND EQUIPMENT

Depreciation expense is provided primarily on the straight-line method over the estimated useful lives of the assets. Maintenance, repairs and renewals are charged against income. Betterments are capitalized and subsequently depreciated. The cost and accumulated depreciation of properties retired or otherwise disposed of are eliminated from the asset and accumulated depreciation accounts. Related profit or loss, if any, from such transactions is credited or charged to income.

Annual rates of depreciation used by the Company are as follows:

Buildings and improvements on owned properties	2%-5%
Buildings and improvements on leased properties	lesser of lease period or useful life
Building equipment	2½%-10%
Furniture, fixtures and equipment	6⅔%-33⅓%

(h) PROVISION FOR DEFERRED COMPENSATION

The Company provides currently for the present value of future benefits to be paid under deferred compensation contracts with certain key officers.

(i) INCOME TAXES

Deferred income tax expense is provided for revenue and expense items recognized in different periods for financial reporting and income tax purposes.

Investment tax credit is recorded as a reduction of Federal income tax expense in the year the acquired property is put into service.

(j) STORE OPENING EXPENSE

The expenses relating to the opening of new stores are charged to operations when incurred.

(k) EMPLOYEES' PROFIT SHARING PLAN

The employees' profit sharing retirement plan as amended covers full-time employees who have one or more years of continuous service and who are over 25 years of age. The annual contribution, subject to specified limitations, is the larger of 10½ percent of net profits of the Company as defined or an amount authorized by the board of directors.

(l) EARNINGS PER COMMON SHARE

Earnings per common share is computed by dividing net earnings, after deducting preferred stock dividends, by the weighted average number of shares of common stock outstanding during the year.

(2) MERCHANDISE INVENTORIES

The amount of the reserve required to reduce first-in, first-out cost to last-in, first-out cost at January 29, 1977, was approximately $1,724,000 ($829,000 at January 31, 1976).

(Continued next page)

NOTES TO FINANCIAL STATEMENTS (Continued)

(3) INVESTMENTS

Investments consist of the following:

		Jan 29 1977	Jan 31 1976
Equity securities:			
General Growth Properties	(A)	$ 2,531,440	$ 2,620,046
Paul Harris Stores, Inc.	(B)	2,458,624	2,054,896
Heritage Communications, Inc.	(C)	319,000	319,000
		5,309,064	4,993,942
Other:			
Becker Communications Associates, a limited partnership, at equity		1,087,411	1,054,407
General Growth Properties, 6½% second mortgage note due in monthly installments to October 1, 1978		341,016	418,816
Miscellaneous, at cost		34,272	35,811
		1,462,699	1,509,034
		$ 6,771,763	$ 6,502,976

(A) General Growth Properties (GGP) is stated at equity in net assets as of January 31, 1973, at which time the Company's holdings were reduced and the equity method of accounting was discontinued. Dividends received in excess of proportionate earnings of General Growth are accounted for as a return of investment.

Dividends received during the years ended January 29, 1977 and January 31, 1976, amounted to $984,712 and $912,307 of which $88,607 and $110,329 represented a return of investment and $896,105 and $801,978 represented income, and is included in dividend income in the statements of earnings.

At January 29, 1977 and January 31, 1976, the Company held 724,053 shares of GGP or approximately 11.7 and 12.7 percent, respectively, of the outstanding shares of GGP. The market value of GGP shares on the New York Stock Exchange at January 29, 1977, was $22.62 per share ($19.00 at January 31, 1976).

(B) The Company owned 203,202 shares of common stock or 23.9 percent of Paul Harris Stores, Inc., at January 29, 1977 and January 31, 1976, and accounts for this investment by the equity method.

Equity earnings, included in other income in the statements of earnings for the years ended January 29, 1977 and January 31, 1976, are $444,369 and $448,329, respectively. Under the equity method dividends received are accounted for as a return of investment and amounted to $40,640 and $30,401 for January 29, 1977 and January 31, 1976, respectively.

The bid price of Paul Harris Stores, Inc., on the national over-the-counter market at January 29, 1977, was $14.00 per share ($13.50 at January 31, 1976).

The excess of the Company's investment over its equity in net assets of Paul Harris Stores, Inc., amounted to $349,627 and $365,967 at January 29, 1977 and January 31, 1976, respectively, and is being amortized on a straight-line basis over 25 years.

(C) The Company's investment in 63,800 common shares (14.9%) of Heritage Communications, Inc., is stated at cost. The approximate market value on a local over-the-counter exchange was $2.50 per share at January 29, 1977 and January 31, 1976.

At January 29, 1977, the aggregate market value in excess of stated value for the above equity securities was comprised of gross unrealized gains of $14,236,464 and gross unrealized losses of $159,500. The aggregate market value in excess of cost for marketable securities included in current assets was comprised of gross unrealized gains of $518,655 and gross unrealized losses of $100,052.

(4) MANAGEMENT NOTES RECEIVABLE

Other assets include notes receivable from certain management employees amounting to $210,414 ($225,123 in 1976). The notes were accepted in connection with a stock purchase plan. Designated management employees are permitted, subject to certain limitations, to borrow at 5 percent interest in order to acquire shares of the Company's common stock. The loans are evidenced by unsecured notes due one-third in 1980 and the balance in 1985.

(5) LONG-TERM DEBT

Long-term debt consists of unsecured notes bearing interest at 5 percent and 6½ percent per annum, payable in 1977 through 1988. Maturities of principal for the four years ended January 1981, are $634,000 per year. Maturities of principal for the year ended January 1982, total $1,584,000.

Among the provisions of the loan agreements are restrictions on the payment of cash dividends and purchases of capital stock. At January 29, 1977, unrestricted reinvested earnings amounted to approximately $21,500,000.

(6) INCOME TAXES (DOLLARS IN THOUSANDS)

Components of income tax expense for the years ended January 29, 1977 and January 31, 1976, are as follows:

(continued next page)

NOTES TO FINANCIAL STATEMENTS (Continued)

(6) Income Taxes (Dollars in Thousands)

	Current	Deferred	Total
1977:			
Federal	$ 2,406	$ 684	$ 3,090
State	439	114	553
	$ 2,845	$ 798	$ 3,643
1976:			
Federal	$ 2,404	$ 664	$ 3,068
State	511	131	642
	$ 2,915	$ 795	$ 3,710

Revenue and expense items recognized in different periods for financial reporting and income tax purposes and the related tax effects are as follows:

	1977	1976
Accelerated depreciation	$ 304	$ 356
Installment method of accounting for deferred payment sales and unearned finance charges	206	405
Allowance for doubtful receivables ..	33	(26)
Dividends representing return of capital	(45)	(35)
Undistributed earnings of investee companies	156	160
Accrued common area expenses	182	(21)
Other, net	(38)	(44)
	$ 798	$ 795

The Company expects no material reversal of deferred income taxes during the next three years.

Total income tax expense for January 29, 1977 and January 31, 1976, differs from the amount of income tax expense computed by applying the normal United States Federal income tax rate of 48 percent to earnings before income taxes. The reasons for such differences are as follows:

	1977	1976
Computed income tax (48% of earnings before income taxes)	$3,874	$4,184
Increases (reductions) in taxes resulting from:		
State income taxes, net of Federal income tax benefit....	288	334
Benefit from income taxes at capital gains rate..........	(206)	(193)
Investment tax credit	(122)	(499)
Other, net	(191)	(116)
	$3,643	$3,710

(7) OTHER INCOME

During 1976 the Company obtained a favorable court settlement in connection with a lawsuit filed against the landlord of one of the Company's leased properties. The suit involved excessive heating, ventilating and air conditioning charges. As a result, approximately $350,000 of previously recorded billings have been included in other income.

(8) LEASE COMMITMENTS (DOLLARS IN THOUSANDS)

For disclosure purposes lease arrangements are classified as either "financing" or "operating" leases. A "financing" lease has been defined as one which, during the noncancellable lease period, either (i) covers 75 percent or more of the economic life of the property or (ii) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on the use of the assets involved.

The Company occupies certain stores and warehousing facilities and uses certain equipment under lease arrangements.

(Continued next page)

NOTES TO FINANCIAL STATEMENTS (Continued)

(8) Financial Commitments (Dollars in Thousands)

Total rental expense was as follows:

	Jan 29 1977		Jan 31 1976	
	Financing	Operating	Financing	Operating
Minimum rentals	$ 2,735	$ 136	$ 2,368	$ 129
Contingent rentals	704	–	574	7
Sublease rentals	(201)	–	(206)	–
	$ 3,238	$ 136	$ 2,736	$ 136

Contingent rentals paid to lessors of certain store facilities are determined on the basis of a percentage of sales in excess of stipulated minimums, and common area charges at shopping centers.

A summary of noncancellable long-term minimum lease commitments follows:

	Type of property		Type of lease		
Years ending January	Real property	Equipment	Financing	Operating	Total Commitment
1978	$ 2,846	$140	$ 2,837	$149	$ 2,986
1979	2,849	114	2,773	190	2,963
1980	2,790	110	2,770	130	2,900
1981	2,795	104	2,781	118	2,899
1982	2,827	104	2,814	117	2,931
1983-1987	13,472	198	13,233	437	13,670
1988-1992	11,576	–	11,492	84	11,576
1993-1997	9,297	–	9,297	–	9,297
After 1997	13,794	–	13,794	–	13,794

Minimum rental commitments for real property have been reduced by the following sublease rentals:

Years ending January	Financing leases	Operating leases
1978	$ 78	$ 2
1979	16	20
1980	9	20
1981	9	20
1982	9	20
1983-1987	1	102
1988-1992	–	19

All leases expire prior to 2018. The Company's real estate tax, insurance, and maintenance expense obligations vary from lease to lease. Minimum rental payments under gross leases have not been reduced by the amount of applicable executory expenses. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than amounts shown for 1978.

The present values, in aggregate, and by major categories of assets, of minimum lease commitments, applicable to non-capitalized "financing" leases at January 29, 1977, and January 31, 1976, were as follows:

	Interest Rates Used in Present Value Computation					
	Weighted Average		Range		Present Value	
Asset Category	1977	1976	1977	1976	1977	1976
Real property	6.8%	6.7%	5.5%-9.0%	5.5%-8.0%	$29,200	$28,383
Equipment	8.0%	8.0%	8.0%	8.0%	594	781
					29,794	29,164
Less present values of rentals to be received under subleases of real property	6.1%	6.0%	5.5%-9.0%	5.5%-9.0%	56	156
					$29,738	29,008

(Continued next page)

NOTES TO FINANCIAL STATEMENTS (Continued)

(8) Financial Commitments (Dollars in Thousands)

If all non-capitalized "financing" leases were capitalized, related lease rights were amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, net earnings would have been reduced as follows:

	Year ended Jan 29 1977	Jan 31 1976
Amortization of lease right	$1,366	$1,211
Interest cost	1,930	1,580
Rent expense	(2,801)	(2,411)
	495	380
Income taxes	257	198
Pro forma reduction of net earnings	$ 238	$ 182

(9) UNAUDITED QUARTERLY FINANCIAL INFORMATION (DOLLARS IN THOUSANDS)

Summarized unaudited quarterly operating results for the year ended January 29, 1977, follows:

	Quarter ended Apr 30	Jul 31	Oct 30	Jan 29
Net sales	$25,694	$29,105	$29,873	$39,554
Gross profit	9,236	9,876	11,518	14,316
Net earnings	$ 356	$ 405	$ 1,070	$ 2,598
Earnings per share	$.23	$.27	$.75	$1.86

ACCOUNTANTS' REPORT

Board of Directors and Stockholders
Younker Brothers, Inc.:

We have examined the balance sheets of Younker Brothers, Inc. as of January 29, 1977 and January 31, 1976 and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Younker Brothers, Inc. at January 29, 1977 and January 31, 1976 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Des Moines, Iowa
March 22, 1977

FASHION . . .

. . . is newness and change. It creates excitement and stimulates sales. Good fashions relate well to the life style of the consumer and gives them the opportunity for increased self-expression whether in the way they dress, furnish their home, or in the multitude of other products they select for daily living or as gifts to others.

Recognizing the diversity of life styles throughout our trade area and the essential difference in breadth of customer appeal between a department store such as Younkers and the typical specialty store, we are constantly challenged to identify who our customers are and what products their life styles create a demand for. This results in a broad range of fashion appeals throughout the year. In 1976, Younkers fashion promotions stressed value in "Great Investments," "Cross Culture" reflected ethnic influences, casual living in "T-Shirts Tee Off," the increasing role of women in business influenced "Haberdashery Dressing" and energy realities were reflected in "Sweatery Knits" and "Multi-Level Layering." Nostalgia was evident in "The Return of the Classics" as well as such vendor supplied promotions as "Hanes Heritage Collection" and Fostoria's "Old World Patterns." Fashion emphasis was directed to our younger customers through the activities of our Teen Boards, their mini-shows and "Junior Fashion Fair." Our Home Furnishings departments also participated in such fashion promotions as "Outdoor Living" and "Our American Heritage."

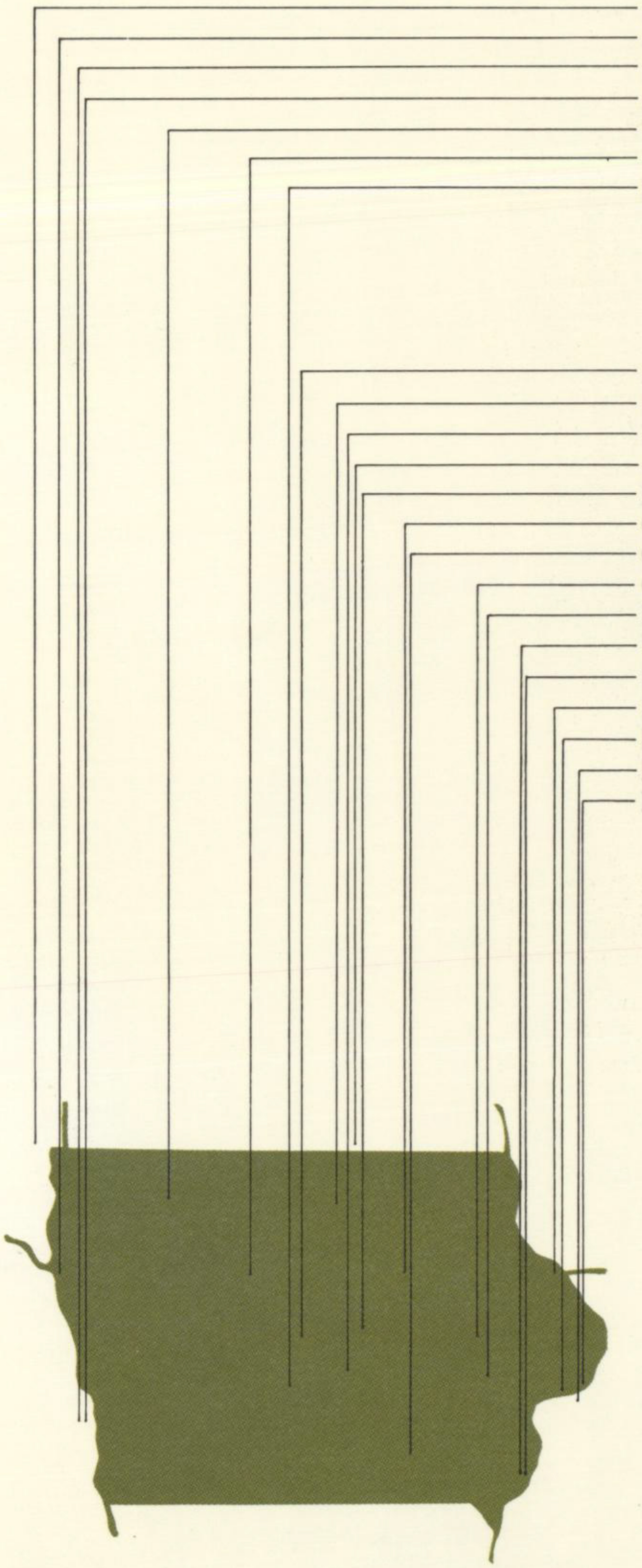
The fashion highlight of 1976 at Younkers was the personal appearance of Halston together with his New York models and staff to present two benefit shows which we sponsored. The Des Moines Art Center and Omaha's Joslyn Museum received over $50,000 from this effort. We also demonstrated again our fashion leadership in two very important markets and, in addition, sold a considerable volume of Halston products ranging from designer dresses, to lingerie, to mens accessories, sheets and towels.

Fashion truly is a motivating force at Younkers!

Halston

Halston and models presented showings at Younkers in Des Moines and Omaha.

YOUNKERS STORES SQUARE FOOTAGES



	Square Feet	The year Younkers entered trade area
Sioux Falls, South Dakota	100,000	1975
Sioux City, Iowa	179,000	1948
Omaha, Nebraska — Westroads	150,000	1968
Omaha, Nebraska — The Center	98,000	1955
Spencer, Iowa	15,000	1960
Fort Dodge, Iowa	27,000	1947
Des Moines, Iowa		
Downtown	373,000	1899
Eastgate Shopping Center	40,000	1962
Merle Hay Mall	181,000	1959
Store For Homes — Merle Hay Mall	75,000	1974
Southridge Mall	100,000	1975
Ames, Iowa	49,000	1941
Mason City, Iowa	25,000	1944
Newton, Iowa	15,000	1960
Austin, Minnesota	45,000	1958
Marshalltown, Iowa	38,000	1948
Cedar Falls, Iowa	60,000	1968
Ottumwa, Iowa	15,000	1949
Cedar Rapids, Iowa	100,000	1960
Iowa City, Iowa	38,000	1949
West Burlington, Iowa	47,000	1977
Burlington, Iowa	30,000	1966
Dubuque, Iowa	60,000	1968
Davenport, Iowa	100,000	1973
Moline, Illinois	80,000	1974
Bettendorf, Iowa	60,000	1960
TOTAL	2,100,000	

QUARTERLY COMMON STOCK INFORMATION

1977	High	Low	Dividend
1st quarter	24½	23	$ .35
2nd quarter	25	24	.35
3rd quarter	24½	23½	.35
4th quarter	24½	23½	.35

1976			
1st quarter	15	14	$ .30
2nd quarter	19	14½	.30
3rd quarter	20	19	.30
4th quarter	22½	19	.30

OFFICERS AND DIRECTORS OF YOUNKER BROTHERS, INC.

Left to right: ROY RICHARDS, Vice President Store Operations and Personnel; WILLIAM FRIEDMAN, JR., Executive Vice President; KENNETH McCARTHY, Vice President Finance, Secretary Treasurer; STANLEY KRUM, Senior Vice President; (Seated) CHARLES DUCHEN*, President.

DIRECTORS:

JOSEPH F. ROSENFIELD*
Chairman of the Executive Committee

MOREY SOSTRIN
Chairman of the Board

WILLIAM FRIEDMAN, SR.*, Lawyer

STANLEY B. FRIEDMAN, Vice President
Iowa Savings and Loan Association

ROBERT J. MANDELBAUM, Investments

ROBERT LUBETKIN, Director of Sales
Planning and Coordinating

*Member of the Executive Committee

YOUNKERS
DES MOINES, IOWA 50306